



The Michigan Department of Environment, Great Lakes, and Energy

Fiscal Year 2021 Annual Report

Clean Water State Revolving Fund

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Attachment:

CWSRF Financed Projects FY 2021

I. INTRODUCTION

This fiscal year (FY) 2021 annual report is submitted to the United State Environmental Protection Agency (EPA) in compliance with Sec. 602(b)(10) and Sec. 606(d) of the federal Water Pollution Control Act., P.L. 92-500, as amended. It covers the period from October 1, 2020 to September 30, 2021, highlighting the activities of Michigan's Clean Water State Revolving Fund (CWSRF).

The Michigan Department of Environment, Great Lakes, and Energy (EGLE) is the lead agency for management of the CWSRF. The Water Infrastructure Financing Section (WIFS) of the Finance Division (FD) continues to serve as EGLE's program administrator for the CWSRF.

EGLE and the Michigan Financial Authority (MFA) jointly administer the CWSRF under the authority of Part 53, Clean Water Assistance, of the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended (NREPA), and the Shared Credit Ratings Act, 1985 PA 227, as amended. The state also conducts its CWSRF in a manner consistent with the requirement established in the federal Water Pollution Control Act, P.L. 92-500, as amended.

EGLE offers this public report to detail the activities undertaken to reach the objectives set forth in the final FY 2021 Intended Use Plan (IUP). This annual report is submitted to the EPA and is available on EGLE's website at www.Michigan.gov/CWSRF.

In FY 2021, Michigan applied for and was granted the 2020 federal capitalization grant from EPA in the amount of \$68,329,000. As required, Michigan provided a 20-percent state match of \$13,665,800 from proceeds of the sale of a state match revenue bond. In addition to the federal and state capital contributions, the CWSRF is also capitalized with principal and interest payments from earlier loans, account earnings, state match bonds, and released funds from debt service reserve accounts.

The CWSRF continues to operate under a cash flow leveraging model.

II. PROGRAM SUMMARY

CWSRF loan commitments made during FY 2021 were awarded with an interest rate of 1.875 percent for a 20-year loan and 2.125 percent for a 30-year loan. Repayments are amortized with level debt service for 20 or 30 years depending on loan terms. All commitments were made to qualified Section 212 projects.

Projects for qualified Section 212 uses were selected from the FY 2021 CWSRF Project Priority List (PPL) administered under provisions set forth in Part 53 of the NREPA, and its accompanying administrative rules. Section 319 projects would be selected from the FY 2021 Nonpoint Source PPL, but zero applications were received. Therefore, there were no Section 319 projects financed in FY 2021.

III. GOALS AND ACCOMPLISHMENTS

A. Short-Term Goals and Accomplishments

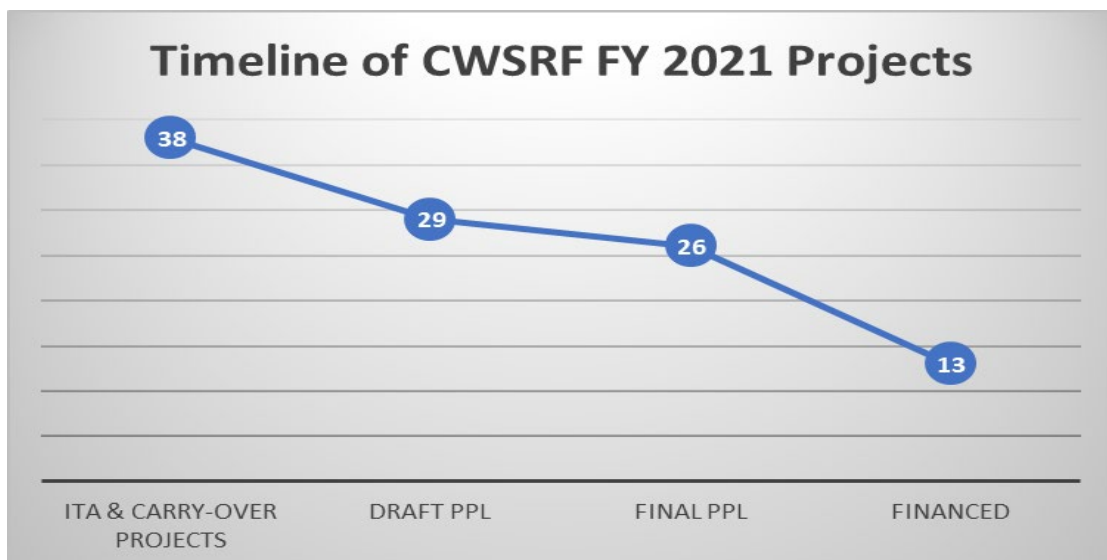
Michigan's IUP described short-term goals to be implemented during FY 2021. They were:

1. *Provide financing to the maximum number of applicants as possible including communities that have not utilized the CWSRF program in recent years.*

EGLE has made internal and cultural changes recently to make the CWSRF program more appealing and accessible to municipalities across the state, including better and more frequent communication, utilization of the Intent-to-Apply (ITA) Form for applicants, and initial project planning meetings.

EGLE received ITA forms from 28 applicants interested in financing in FY 2021. Additionally, 10 prior-year-carryover projects were seeking financing. At the time of publication of the draft PPL/IUP, nine projects rescinded their financing requests leaving 29 projects. Between publication of the draft and final PPL/IUPs, three additional projects declined financing leaving 26 traditional CWSRF projects and zero NPS projects seeking financing in FY 2021. EGLE financed 13 projects for \$161.9M in FY 2021.

Projects drop out of the application queue for several reasons, most citing lack of willingness to incur additional debt, delay in construction timeline, other funding/financing available, and anticipation of future grants rather than loan dollars. Projects dropping from any given year are moved to future funding years if appropriate. A larger than normal drop occurred this fiscal year due to the announcement of new proposed future grant programs under [Michigan's Clean Water Plan](#). To date, proposed clean water programs identified within the announcement have not yet been approved by Michigan's legislature.



2. Secure Michigan's full share of federal funding and to expeditiously obligate these monies along with the state contribution.

Michigan applied for and was awarded its total capitalization grant allocation amount. EGLE financed all projects identified on the FY 2021 PPL that were able and willing to complete the application process. The fundable range amount was \$500 million, as noted in the IUP.

The following projects noted on the PPL did not proceed with a CWSRF loan in FY 2021:

Project No.	Applicant	Reason
5647-02	City of St. Joseph	Did not proceed with project
5702-01	Charter County of Wayne	Deferred to FY 2022
5679-02	City of Muskegon	Deferred to FY 2022
5729-01	Benton Charter Township	Moved to FY 2022 to complete planning items
5735-01	Galien River Sanitary District Sewer Authority	Deferred to FY 2023
5730-01	Allendale Charter Township	Deferred to FY 2023
5724-01	Village of Manchester	Moved to FY 2022 to complete planning items
5686-02	City of Marquette	Self-funded project
5731-01	City of Marquette	Deferred to FY 2022
5728-01	Lenawee County	Deferred to FY 2022
5716-01	City of Harrisville	Deferred to FY 2022
5685-01	8 ½ Mile Relief Drain Drainage District	Self-funded project
5720-01	City of Highland Park	Deferred to FY 2022

EGLE committed \$161,880,000 to 13 CWSRF projects bringing total commitments made from inception of the CWSRF program to \$5,319,070,000 for 636 projects. Attachment 1 provides details on the projects financed in FY 2021.

3. Ensure requirements of the capitalization grant terms and conditions are met, including those that are imposed on local borrowers.

EGLE staff work closely with local municipal staff to ensure Davis-Bacon requirements are met. A Davis-Bacon Act Compliance Certification form is required to be executed by applicants prior to any loan disbursements containing construction costs being reimbursed.

All communities, absent a waiver, were required to use iron and steel products that are produced in the United State for construction, alterations, maintenance, and repair of treatment works projects. Our office worked with applicants to ensure that the AIS requirements were met.

The qualifications-based selection (QBS) process was utilized when procuring architectural and engineering services. A QBS Certification form is required to be executed by applicants and submitted as part of the application process prior to the Order of Approval.

All projects noted on the PPL were identified as equivalency projects for EPA reporting purposes. WIFS created a new staff position that will serve as an equivalency specialist beginning with FY 2022 projects.

Additional Subsidization and Green Project Reserve

Congress required not less than 10 percent (\$6,832,900) of the capitalization grant be used as Green Project Reserve (GPR) for projects that address green infrastructure, water or energy efficiency improvements, or other innovative activities. EGLE solicited green infrastructure, water/energy efficient, and environmentally innovative projects for the FY 2021 PPL. EGLE required and approved business cases for projects that are not determined categorically green. In FY 2021, EGLE identified \$24,390,739 in project costs that qualified as GPR work.

A minimum of 10 percent (\$6,832,900) of the capitalization grant must be provided as additional subsidization consistent with the requirements of the FY 2020 Enacted Appropriation. The Clean Water Act as amended by Water Resources Reform and Development Act (WRRDA) and the Water Infrastructure Improvements to the Nation Act of 2016 (WIIN), requires between 0 and 30 percent (\$20,498,700) of the capitalization grant be provided as additional subsidization.

In FY 2021, principal forgiveness was distributed to projects qualifying as disadvantaged under Part 53, Clean Water Assistance, of NREPA 1994 PA 451, as amended. Additionally, projects with qualified GPR components received principal forgiveness. The tables below illustrate the awarded amount of principal forgiveness to projects in each category. The total awarded amount of principal forgiveness was \$18,297,500 to disadvantaged communities and \$1,219,537 for GPR, for a total additional subsidy amount of \$19,517,037.

Table 2: FY 2021 CWSRF Loan Principal Forgiveness – Disadvantaged Community

Project #	Applicant	Financed Amount	Principal Forgiveness Amount
5717-01	City of Cheboygan	\$20,000,000	\$5,000,000
5706-01	Detroit Water and Sewerage Department	\$9,175,000	\$2,293,750
5719-01	Oscoda Charter Township	\$6,760,000	\$1,690,000
5709-01	City of Flint	\$37,255,000	\$9,313,750
Total		\$73,190,000	\$18,297,500

Table 3: FY 2021 CWSRF Loan Principal Forgiveness – GPR

Project #	Applicant	Financed Amount	GPR Amount	Principal Forgiveness Amount
5726-01	City of East Lansing	\$34,125,000	\$12,390,000	\$619,500
5718-01	Charter Township of Monitor	\$2,900,000	\$200,739	\$10,037
5733-01	Leoni Township	\$11,800,000	\$11,800,000	\$590,000
Total		\$48,915,000	\$24,390,739	\$1,219,537

B. Long-Term Goals and Accomplishments

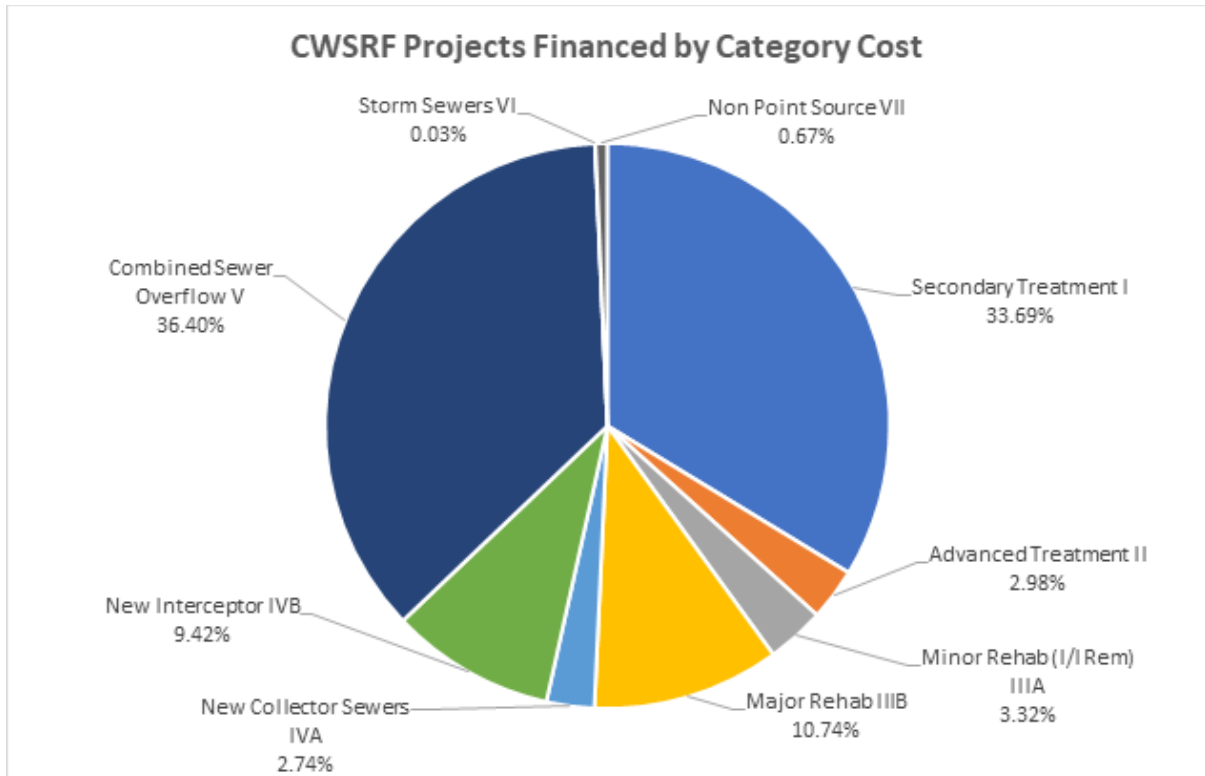
Michigan's IUP also included long-term goals to be addressed by the CWSRF. They were:

1. *Provide low-cost financing for wastewater system improvements or upgrades while maintaining the perpetuity of the CWSRF.*

All loans in FY 2021 were provided at 1.875 percent interest for a 20-year term and 2.125 percent for a 30-year term. Michigan continues to balance the goals of meeting the capitalization grant requirements (i.e., additional subsidies, GPR) while maintaining the CWSRF program in perpetuity.

2. *Achieve and maintain statewide compliance with all applicable state and federal laws, rule, and standards while protecting the public health and environmental quality of our state.*

The attachment illustrates the project categories for FY 2021 financed projects. The following is a chart displaying the percentage of types of projects financed by the CWSRF since inception.



3. *Continue effective partnerships with other federal and state financing sources to promote efficiency in environmental review procedures and coordination of funding/financing.*

WIFS staff, as well as district staff of the Water Resources Division (WRD), continually meet with local governmental officials to discuss water quality problems and potential solutions. EGLE continues to work together with various federal and state agencies, such as the United States Department of Agriculture – Rural Development, Rural Community Assistance Program, Michigan Department of transportation, and the Michigan Economic Development Corporation, so that we may collectively fund, and finance qualifying projects and maximize use of our capital pool to achieve stated goals. Such partnerships ultimately benefit everyone, especially small population/low-income communities.

Additionally, EGLE's commitment to small communities remains important. Of the 13 CWSRF projects funded this year, three projects representing \$28,770,000 or 18% of total funds, were awarded to communities with a population less than 10,000. For FY 2021, the numerical distribution of CWSRF loans is shown below.



4. *Increase awareness and use of the CWSRF program to complete projects.*

EGLE continued to market our financing programs using effective outreach methods such as direct mail, electronic media, and information meetings to publicize and encourage use of the financial assistance.

Additionally, in FY 2021 WIFS began hiring new CWSRF project managers to work in EGLE district offices around the state rather than the historical practice of only in EGLE's central Lansing location. These new project managers are replacements due to retirements as well as additional resources to assist with increased workloads. Housing CWSRF staff around the state will contribute to better communication with loan applicants, improved marketing of the program, and potentially lead to new applicants into the program.

IV. DETAILS OF ACCOMPLISHMENTS

A. Fund Financial Status

1. **Binding Commitments:** The state's commitments are made in the form of Orders of Approval. As previously noted, the CWSRF made 13 binding commitments to Section 212 projects and zero binding commitments to Section 319 projects during the fiscal year for a total of \$161,880,000.
2. **Capitalization Grants:** The Michigan CWSRF was awarded the 2020 capitalization grant of \$68,329,000 for use in FY 2021. This amount was matched by the state with \$13,665,800. Loans are supported by this fund as well as remaining uncommitted balances from earlier awards, investment earnings, and repayments of earlier loans.

3. Disbursements: CWSRF loan disbursements of \$136,107,300.13 were made during FY 2021. Administrative expenses in FY 2021 were \$2,110,472.16. During the fiscal year, Michigan began utilizing a 100 percent cash draw ratio with the entire amount of the state match expended prior to making an initial draw on the capitalization grant with funding from the FY 2019 award. The total ratio remained 83.33 percent federal, 16.67 percent state match. Other resources used for disbursements included the cash on hand from direct loans and bond proceeds.
4. Audit Report: The audit of MFA's financial records is not complete. The audit should be available in January. When the audit report is complete, it will be posted on the web at:
http://www.michigan.gov/treasury/0,1607,7-121-1753_37601_37659---,00.html
5. Credit Risk of the CWSRF: Assistance is not offered to any community that is unable to demonstrate an investment grade credit. If a community cannot demonstrate a minimum investment grade credit, we expect them to seek credit enhancement or finance through another governmental agency (such as the county). This must be done before the Order of Approval can be written.

Michigan's CWSRF has never experienced an event of default on a loan.

6. Environmental Benefits: Michigan participates in the Clean Water Environmental Benefits Reporting. Currently all projects funded in FY 2021 have been entered into the Environmental Benefits Reporting System.

B. Assistance Activity

Loan assistance through the MFA was awarded to all municipalities that received an Order of Approval from EGLE. No other qualified uses of the funds were made other than for project and administrative funding.

C. Provisions of the Operating Agreement/Conditions of the Grant

EGLE Agreed to several Conditions in the Operating and Capitalization Grant Agreement. These conditions are described below:

1. Provide State Match: Michigan has historically provided state match funds from a variety of eligible sources, including issuing state match bonds. The MFA administers the match account as part of its overall financial management.
2. Binding Commitments: By the act of offering the 13 binding commitments during FY 2021, Michigan continues to exceed the requirement for obligation of 120 percent of the federal award amount within one year.

3. **Expeditious and Timely Expenditure of Available Funds:** In most instances, a wire transfer occurs within ten days of receipt of a request for reimbursement from the local unit of government. If funding includes federal sources, the federal share is provided through the federal Automated Standard Application for Payments. The draw method used in Michigan satisfies the requirement to provide state match prior to, or at the time of, drawing federal funds.
4. **Per RAIN-2019-G10 (Recipient/Applicant Information Notice), effective October 1, 2019,** EPA does not require the use of fair share objectives, and given the burden placed on EPA and recipients in negotiating the fair share objectives, EPA is no longer requiring recipients to negotiate fair share objectives at this time. Although fair share objectives have been suspended, EGLE has not changed its MBE WBE process, in anticipation of further guidance from EPA.

As part of the state's continuing effort to meet the MBE/WBE objectives, WIFS presentations are made at the pre-bid meetings to explain the federal requirements to potential contractors, subcontractors, and suppliers. Presentation materials related to the MBE and WBE objectives are discussed as well as the expected actions for contractors working on a CWSRF funded project.

The MBE and WBE figures will be reported by EGLE as a part of the state's required submission for FY 2021.

5. **Other Federal Authorities:** The state of Michigan requires each municipality to comply with all applicable federal cross-cutting authorities and stipulates that the authorized representative so certify in the application. The Application for Assistance sets forth municipal requirements for compliance with federal crosscutters.
6. **State Environmental Review Process:** Of the 13 CWSRF projects funded during FY 2021, all projects were reviewed and approved per Michigan's environmental review procedures. It was determined that no Environmental Impact Statements were necessary for any of these projects. Instead, an environmental assessment was prepared and a FNSI was issued for each project.
7. **Consistency with Planning:** Project plans are shared with the appropriate local regional planning agency by the applicant if requested and follow up as necessary is conducted by WIFS staff.

Sections 205(j) and 303(e) of the federal Water Pollution Control Act requirements are administered separately from the CWSRF by various sections of EGLE, Water Resources Division. State funded grants have been made to several local and regional entities to carry out water quality management planning. Section 303(e) requirements are satisfied via our state permitting process. To continue Michigan's delegated permit writing program, the state must comply with Section 303(e).

Prior to receiving the first capitalization grant, this office verified the existence of an approved planning process. The EPA's continued recognition of EGLE's delegation is proof that Michigan's program remains in compliance.

8. Cash Disbursements: Disbursement procedures are executed in conjunction with the MFA. EGLE receives requests for disbursements from local municipalities. Staff reviews the disbursement requests for content and accuracy and then transmits them to the MFA and EGLE Federal Aid staff. The respective offices will process a request to draw on the federal Automated Standard Application for Payments in accordance with 40 CFR 35.3135(b)(1). Once funds are receipted into the CWSRF account, the MFA processes a wire transfer of funds to the borrower.
9. Administration of the CWSRF: EGLE has agreed to administer the CWSRF in accordance with capitalization grant applications, the IUP, and the Operating Agreement. In doing so, certain administrative procedures are implicit. The operation of the fund is bound by the following provisions:
 - Agreement to accept payments
 - State laws, rule, and procedures
 - State accounting and auditing procedures
 - Sub-recipient accounting and auditing procedures
 - Use of the Automated Standard Application for Payments
 - Repayment
 - Annual audit requirements
 - Annual report
 - Annual review

To the extent of any conflict with any of the foregoing documents, EGLE further agrees that the terms of the Capitalization Grant Agreement will prevail.

10. Automated Payments: Michigan has agreed to accept payment from the EPA through the Automated Standard Application for Payments system and has abided by the cash draw rules.
11. Legal Certifications: The state of Michigan has provided all necessary certifications from the state Attorney General's office, which attest to its ability to implement the CWSRF and bind itself to the terms of the Capitalization Grant Agreement.

V. SIGNIFICANT PROJECT ACCOMPLISHMENTS OF THE CWSRF

Over the lifetime of the Michigan CWSRF program, the dependence on federal dollars for capital funds has diminished to a point where the dollars capitalized through principal/interest payments and investment return exceed those dollars received from the EPA Capitalization Grant. This shift from federal funds to CWSRF generated funds for financing CWSRF projects is a testament to the philosophy of the revolving fund concept.

Michigan, through its efforts to maximize initial funding opportunities, and in turn, loan those funds out, has created a viable revolving fund mechanism.

The following table shows historical interest rate for CWSRF projects.

Table 4: Historical CWSRF Interest Rates

<u>Fiscal Year</u>	<u>20-Year Interest Rate</u>	<u>30-Year Interest Rate</u>
1990 to 1994	2.000%	2.000%
1995 to 1998	2.250%	2.250%
1999 to 2003	2.500%	2.500%
2004	2.125%	2.125%
2005 to 2007	1.625%	1.625%
2008 to 2012	2.500%	2.500%
2013	2.000%	2.000%
2014 to 2016	2.500%	2.500%
2017	2.500%	2.750%
2018 to 2020	2.000%	2.250%
2021	1.875%	2.125%

VI. CONCLUSIONS

Michigan's CWSRF program has matured into a well-run, well-received financing program. The state has been able to deliver its available funds in a manner that emphasizes consistency of environmental review, financial capability standards, as well as prompt delivery of reimbursement for project costs.

EGLE has continued to effectively manage the CWSRF program for water pollution control. EGLE remains committed to customer service, and through shared experiences and customer feedback, revisions, and improvements to the CWSRF program are implemented on a periodic basis. In 2019 EGLE moved the administration of the CWSRF into the newly created Water Infrastructure Financing Section of the Finance Division. The development of the new division illustrates EGLE's dedication to the protection of public health and the environment through local water infrastructure improvement projects. In 2021, EGLE expanded the staff of WIFS to better reach all communities in Michigan by housing newly hired team members throughout EGLE's field offices. EGLE looks forward to the ongoing evolution of the CWSRF to better serve communities throughout Michigan.

CWSRF Financed Projects FY 2021

Attachment 1: CWSRF Financed Projects FY 2021

<u>Project #</u>	<u>Applicant Name</u>	<u>Location</u>	<u>EGLE Binding Commitment Date</u>	<u>Financed Amount</u>	<u>Principal Forgiveness</u>	<u>Loan Term (Years)</u>	<u>Interest Rate</u>	<u>Project Category(s)</u>	<u>Project Description</u>
5446-02	Milk River Intercounty Drain Drainage District	Wayne County	10/16/2020	\$4,490,000	....	20	1.875%	V (combined sewer overflow)	Upgrades to the Milk River combined sewer overflow retention treatment basin, pump station, and recirculation facility (financial segment).
5673-01	Great Lakes Water Authority	Wayne County	2/26/2021	\$12,940,000	....	20	1.875%	I (secondary treatment)	Water Resource Recovery Facility pump station ferric chloride feed system replacement and other pipeline modifications.
5678-01	Ypsilanti Community Utilities Authority	Washtenaw County	2/26/2021	\$3,525,000	....	20	1.875%	I (secondary treatment)	Aeration blower upgrade.
5715-01	City of Burton	Genesee County	4/8/2021	\$2,455,000	....	30	2.125%	IIIB (major rehab)	Sanitary sewer rehabilitation.
5693-01	Macomb Interceptor Drain Drainage District	Macomb County	5/17/2021	\$14,355,000	....	20	1.875%	IIIB (major rehab)	Sanitary sewer rehabilitation.
5718-01	Charter Township of Monitor	Bay County	5/17/2021	\$2,900,000	\$10,037	20	1.875%	IIIB (major rehab)	Pump station and sanitary sewer/manhole rehabilitation.
5733-01	Leoni Township	Jackson County	6/3/2021	\$11,800,000	\$590,000	30	2.125%	I (secondary treatment)	Membrane Bioreactor upgrades and other improvements at the WWTP.
5717-01	City of Cheboygan	Cheboygan County	8/6/2021	\$20,000,000	\$5,000,000	30	2.125%	I (secondary treatment)	WWTP improvements and FSP/AMP activities.
5719-01	Oscoda Charter Township	Iosco County	8/6/2021	\$6,760,000	\$1,690,000	30	2.125%	IIIB (major rehab)	Pump station and lagoon improvements.
5726-01	City of East Lansing	Ingham County	8/6/2021	\$34,215,000	\$619,500	20	1.875%	I (secondary treatment)	WWTP improvements.
5706-01	Great Lakes Water Authority on behalf of Detroit Water and Sewerage Department	Wayne County	9/9/2021	\$9,175,000	\$2,293,750	20	1.875%	IIIB (major rehab)	Sanitary sewer and manhole rehabilitation.
5732-01	City of Menominee	Menominee County	9/9/2021	\$2,010,000	....	30	2.125%	IIIB (major rehab)	Sanitary sewer rehabilitation.
5709-01	City of Flint	Genesee County	9/14/2021	\$37,255,000	\$9,313,750	30	2.125%	I (secondary treatment)	WWTP and pump station improvements.
			TOTAL	\$161,880,000	\$19,517,037				